



Arnold Schwarzenegger, Governor  
State of California  
Business, Transportation and Housing Agency

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Department of Managed Health Care  
980 9<sup>th</sup> Street, Suite 500  
Sacramento, CA 95814  
(916) 255-2426 voice  
(916) 255-2280 fax  
swei@dmhc.ca.gov e-mail

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via electronic mail & UPS

Ms. Janette Lopez  
Chief Deputy Director  
California Managed Risk Medical Insurance Board  
1000 G Street, Suite 450  
Sacramento, CA 95814

**RE: EVALUATION OF WESTERN DENTAL SERVICES MEDICAL LOSS RATIO  
SUBMISSION**

Dear Ms. Lopez:

The Department of Managed Health Care ("DMHC") is pleased to provide the Managed Risk Medical Insurance Board ("MRMIB"), Healthy Families Program ("HFP") with the following report regarding the evaluation of Western Dental Services ("WDS") HFP loss ratio submission for the period July 1, 2007 through June 30, 2008. This report outlines the project objectives, methodology and results.

I Objectives: The purpose of the loss ratio evaluation is to evaluate the underlying payments supporting the amount reported as benefits provided to HFP subscribers reported by WDS.

As part of this evaluation, DMHC will perform the following:

- A Determine whether 100% of the children who received services paid by WDS were enrolled in the HFP at the time the services or capitated coverage were provided;
- B Summarize the total claims payments within the detailed data provided by WDS and compare the total payments to the amount reported on Schedule 6 submitted by WDS;
- C Identify and document additional reimbursement made, other than payments to providers for services, by WDS, and evaluate the appropriateness of those payments to inclusion in the medical expenses reported on Schedule 6; and
- D Summarize the total payments made by WDS for the HFP subscribers, and based on the steps above, recalculate the loss ratio and compare it to the loss ratio submitted by WDS on Schedule 6.

To achieve the objectives outlined above, DMHC performed data analysis on information provided by MRMIB and WDS and corresponded with management personnel at WDS. Primary contacts at WDS were Kelley Duniven, Director of Operations, David Joe, CFO, Philip Runnoe, COO and Marsha Gandhi, Director of Operations.

The methodology and results for each of the objectives are described below.

## II Methodology

### A Determined whether 100% of the children who received services paid by WDS were enrolled in the HFP at the time the services were provided.

- (a) The Department obtained electronic files containing detailed capitation and claims payments made for HFP subscribers. Additionally, the Department obtained electronic files from MRMIB of all children eligible for which payments were made for benefits as a WDS subscriber during the period of July 1, 2007 through June 30, 2008.
- (b) Using the two files, the Department compared the Client Index Number ("CIN") and Date of Service on WDS's capitation and claims files to determine if there were any payments made by WDS for subscribers that were not eligible for benefits according to the eligibility file received from MRMIB.

Table 1 –Fee for Service payments for individuals that were not listed as eligible members per the data files provided by Maximus for the service periods under examination.

**Table 1** (Ineligible Expenditures)

Claims Payments Category	Data Base Total		Ineligible Data		
	Number of claims/services	Amount	Number of claims/services	Amount (footnote 1)	Percent Error on Amounts
Capitation payments,	954,215	\$9,878,192	14,039	\$143,394	1.45%
Fee-for-Service Payments	13,689	\$1,269,698	136	\$15,412	1.21%

Notes for Table 1: Capitation and FFS mismatches identified during the examination were identified to the Plan during the course of the examination. The discrepancies noted in the areas of Capitation were considered to be material and were recommended as audit adjustments. The discrepancies noted in the areas of FFS were considered to be *de minimus*, and although identified in Table 1 above, were not recommended as audit adjustments.

### B Summarized the total claims payments within the detailed data provided by WDS and compared the total payments to the amount reported on Schedule 6 submitted by WDS.

Using the electronic file received from WDS in Section II (A) (a) above, and WDS's Schedule 6 loss ratio submission provided by MRMIB, DMHC compared the total of the payments on the electronic files to the data on Schedule 6.

*Footnote 1: This analysis represents payments made by the Plan to their contracted providers, not payments made by MRMIB to the Plans.*

**Table 2** (difference between Sch 6 reported and database detail)

Description	Sch 6	Plan Data	Difference	Percent Difference
Capitation payments	\$9,874,403	\$9,734,798	(\$139,605)	-1.41%
Fee-for-Service Payments	\$1,269,092	\$1,269,698	\$606	0.05%

**Note 1:** The data base provided by WDS was analyzed based on the period of service and has been determined to be the most accurate measure of medical expense for the period of the examination. The data base included a review of costs identified through July 2009 after the exam period. Expenses reported on Sch 6 were based on the cash payments made during the 12 months audited period.

**Note 2:** The difference for capitation payments noted between the Sch 6 and the Plan's detailed database were considered to be material and were recommended as audit adjustments. The difference for FFS payments noted between the Sch 6 and the Plan's detailed database were considered to be *de minimus*, and although identified in Table 2 above, were not recommended as audit adjustments.

**C Summarized the total payments made by WDS for the HFP subscribers, recalculated the loss ratio, and compared it to the loss ratio submitted by WDS on Schedule 6.**

Table 3 – Detailed reconciliation of detailed data files to Schedule 6

**Table 3**

	CATEGORY	REPORTED ON SCHEDULE 6	BALANCE PER DMHC REVIEW	VARIANCE OVER/(UNDER)
	Subscriber Months	932,100	956,898	24,798
1	Premium Payments from State	\$14,302,704	\$14,302,704	\$0
	<b>Affiliated Entities and Nonaffiliated Entities</b>			
2	Incentive Payments to Affiliated Parties	\$0	\$0	\$0
3	Incentive Payments to Nonaffiliated Parties	\$0	\$0	\$0
4	Total Incentive Payments	\$0	\$0	\$0
	<b>Expenses</b>			
	<b>Dental services:</b>			
5	Preventative services	\$248,444	\$248,444	\$0
6	Restorative Services	\$942,125	\$942,125	\$0
7	Major Services	\$78,523	\$78,523	\$0
8	Other Services	\$10,767,958	\$10,635,837	(\$132,121)
9	Reinsurance expenses	\$0	\$0	\$0
10	Incentive Pool Adjustment	\$0	\$0	\$0
11	TOTAL DENTAL SERVICES (Line 5 to Line 10)	\$12,037,050	\$11,904,929	(\$132,121)
A	<b>Gross Profit</b>	<b>\$2,265,654</b>	<b>\$2,397,775</b>	
B	<b>MEDICAL LOSS RATIO</b>	<b>84.16%</b>	<b>83.24%</b>	

**Note 1:** The \$10,767,958 expenses reported on line 8 Other Services include \$9,874,403 capitation expenses, \$585,263 supplemental payments for encounter data and \$308,292 UM/QA allocation costs. The Plan over reported \$139,605 capitation expenses and under reported \$7,484 UM/QA allocation costs, therefore total of negative \$132,121 in adjustments have been made to line 8 Other Services of Schedule 6 to reflect the accurate expenses.

### III Summary of Findings/Issues

- A. The Plan over reported \$139,605 capitation expenses and under reported \$7,484 UM/QA allocation cost. Thus total of \$132,121 has been deducted from Schedule 6 to reflect accurate payments made for HFP.

### III Limitations

This analysis and report were prepared solely for the purpose of assisting MRMIB in the determination of the accuracy of payments made by WDS on their Schedule 6 Medical Loss Ratio Report. We have not performed an evaluation of the Company's internal controls within the guidelines set forth by the AICPA but have reported to you based upon the procedures performed. Our analysis has not been a detailed examination of all transactions, and cannot be relied upon to disclose errors, irregularities, or illegal acts, including fraud or defalcations that may exist.

Please feel free to call us if you have any questions pertaining to this report.

Sincerely,



Shuzhi Wei, Examiner  
Division of Financial Oversight



Stephen Babich, Supervising Examiner  
Division of Financial Oversight

cc: Lan Yan, Federal Compliance Auditor, MRMIB  
Tony Lee, Chief Fiscal Services, MRMIB